

**REPORT OF THE AUDIT OF THE
FORMER PIKE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

**For The Period December 1, 2002
Through January 5, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.kyauditor.net**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
FORMER PIKE COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES

For The Period December 1, 2002
Through January 5, 2003

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2002 Taxes for former Pike County Sheriff Stephen Friend for the period December 1, 2002 through January 5, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The former Sheriff collected taxes of \$3,584,067 for the districts for 2002 taxes, retaining commissions of \$100,129 to operate the former Sheriff's office. The former Sheriff distributed taxes of \$3,482,614 to the districts for 2002 Taxes. Taxes of \$72 are due to the districts from the former Sheriff and refunds of \$236 are due to the former Sheriff from the taxing districts.

Report Comment:

- Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities or bonds.

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Auditor of Public Accounts

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William Deskins, Pike County Judge/Executive
Honorable N. Stephen Friend, Former Pike County Sheriff
Honorable Charles Keese, Pike County Sheriff
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the Pike County Sheriff's Settlement - 2002 Taxes for the period December 1, 2002 through January 5, 2003. This tax settlement was the responsibility of the former Pike County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Pike County Sheriff's taxes charged, credited, and paid for the period December 1, 2002 through January 5, 2003, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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Finance and Administration Cabinet
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Honorable N. Stephen Friend, Former Pike County Sheriff
Honorable Charles Keesee, Pike County Sheriff
Members of the Pike County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2003, on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment.

- Lacked Adequate Segregation Of Duties

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2003

PIKE COUNTY
NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

For The Period December 1, 2002 Through January 5, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Transferred To Incoming Sheriff:				
Real Estate	\$ 427,155	\$ 405,620	\$ 1,513,883	\$ 484,595
Tangible Personal Property	89,250	89,325	360,630	371,202
Intangible Personal Property				27,062
Fire Protection	1,819			
Delinquent Solid Waste	1,460,704			
Franchise Corporation	3,619	3,548	12,313	
Prior Year Additional Billings	867	683	2,652	1,094
Oil and Gas Property Taxes	327,754	311,228	1,379,871	371,822
	<u>\$ 2,311,168</u>	<u>\$ 810,404</u>	<u>\$ 3,269,349</u>	<u>\$ 1,255,775</u>
Gross Chargeable to Sheriff				
	<u>\$ 2,311,168</u>	<u>\$ 810,404</u>	<u>\$ 3,269,349</u>	<u>\$ 1,255,775</u>
<u>Credits</u>				
Exonerations	\$ 23,155	\$ 2,115	\$ 9,359	\$ 2,562
Discounts	6,145	5,835	25,859	6,971
Transfers To Incoming Sheriff	1,731,571	344,030	1,335,814	568,303
Uncollected Franchise	304	248	358	
	<u>\$ 1,761,175</u>	<u>\$ 352,228</u>	<u>\$ 1,371,390</u>	<u>\$ 577,836</u>
Total Credits				
	<u>\$ 1,761,175</u>	<u>\$ 352,228</u>	<u>\$ 1,371,390</u>	<u>\$ 577,836</u>
Taxes Collected	\$ 549,993	\$ 458,176	\$ 1,897,959	\$ 677,939
Less: Commissions *	23,373	19,470	28,472	28,814
	<u>\$ 526,620</u>	<u>\$ 438,706</u>	<u>\$ 1,869,487</u>	<u>\$ 649,125</u>
Taxes Due				
Taxes Paid	526,363	438,458	1,868,877	648,916
Refunds (Current and Prior Year)	222	211	803	252
	<u>\$ 526,620</u>	<u>\$ 438,706</u>	<u>\$ 1,869,487</u>	<u>\$ 649,125</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 35</u>	<u>\$ 37</u>	<u>\$ (193)</u>	<u>\$ (43)</u>

* and ** See Page 4

The accompanying notes are an integral part of this financial statement.

PIKE COUNTY
NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
For The Period December 1, 2002 Through January 5, 2003
(Continued)

* Commissions:

4.25% on	\$	1,686,108
1.5% on	\$	1,897,959

** Special Taxing Districts:

Library District	\$	20
Health District		12
Extension District		<u>5</u>
Due Districts	\$	<u><u>37</u></u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT

January 5, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of January 5, 2003, the former Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the former Sheriff's agent in the former Sheriff's name, or provided surety bond which named the former Sheriff as beneficiary/obligee on the bond.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENT
January 5, 2003
(Continued)

Note 4. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was December 6, 2003 through January 5, 2003.

Note 5. Interest Income

The former Pike County Sheriff earned \$392 as interest income on 2002 taxes. The former Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office

Note 6. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2002 taxes, the former Sheriff had \$499 in unrefundable duplicate payments and unexplained receipts. Therefore, the former Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMENDATION

PIKE COUNTY
NOAH STEPHEN FRIEND, FORMER COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Period December 1, 2002
Through January 5, 2003

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacked Adequate Segregation Of Duties

The former Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could have adversely affected the former Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's office obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash periodically recounted and deposited by the Sheriff
- Periodic reconciliation of reports to source documents by the Sheriff
- All disbursement checks signed by two people and one must be the Sheriff
- The Sheriff distributes checks to taxing districts
- All disbursements checks prepared by an employee are examined by the Sheriff for proper documentation (Refunds, Interest)
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's tax office prepares bank reconciliations

Former Sheriff Stephen Friend's Response:

The Pike County Sheriff's Department does not have adequate funds to hire additional staff to have a proper segregation of duties.

PRIOR YEAR:

None.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the former Pike County Sheriff's Settlement - 2002 Taxes for the period December 1, 2002 through January 5, 2003, and have issued our report thereon dated September 9, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Pike County Sheriff's Settlement - 2002 Taxes for the period December 1, 2002 through January 5, 2003, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
September 9, 2003